

G-002/M-95-519

ORDER APPROVING NEW AREA SURCHARGES AND REQUIRING REVISED TARIFF  
SHEET

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs  
Tom Burton  
Marshall Johnson  
Dee Knaak  
Don Storm

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of a Request by Northern States  
Power Gas Utility for a Miscellaneous Rate  
Change to Establish a New Area Surcharge for  
Customers in the Community of Glyndon,  
Minnesota

ISSUE DATE: November 22, 1995

DOCKET NO. G-002/M-95-519

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SURCHARGES AND REQUIRING  
REVISED TARIFF SHEET

**PROCEDURAL HISTORY**

On May 19, 1995, the Northern States Power Company Gas Utility (NSP Gas or the Company) filed a request for a New Area Surcharge for the community of Glyndon.

On June 19, 1995, the Minnesota Department of Public Service (the Department) filed comments recommending approval with two modifications.

On November 9, 1995, the Commission met to consider this matter.

**FINDINGS AND CONCLUSIONS**

**A. The Company's Proposal**

NSP Gas requested that the Commission approve a New Area Surcharge for the Community of Glyndon. The Company stated that it used the surcharge calculation methodology as described in its New Area Surcharge Rider (11th Revised Tariff Sheet No: 5-15) which was approved along with the Lakes Area surcharge.

The Company related that the community of Glyndon has requested natural gas service for several years and granted NSP Gas a franchise to install a gas distribution system. The Company reported that the revenue requirements model shows that the expansion would not be justified without a surcharge. The Company proposed the following surcharges:

Residential	\$6.00
Commercial & Industrial	\$6.00
Large General Service	\$225.00
Small Volume Interruptible	\$100.00
Large Volume Interruptible	\$275.00
Firm Transportation	\$300.00
Interruptible Transportation	\$300.00

The Company noted that these surcharges are identical to those approved for the Brainerd Lakes Area project in two Orders: 1) Order dated May 6, 1994 in Docket No. G-002/M-94-156 and 2) Order dated April 25, 1995 in Docket No. G-002/M-94-1054.<sup>1</sup>

In support of its proposed rates, the Company asserted that its Commercial and Industrial (C&I) customers in Glyndon are not representative of the C&I customers in other Minnesota areas served by the Company, particularly the metro area. The annual usage of the Glyndon C&I customer is expected to be 250 Mcf per year compared to 725 Mcf per year for the typical C&I customer. The Glyndon C&I customer's usage is closer to the typical Glyndon residential customer's usage of 120 Mcf per year. The Company argued that a large C&I surcharge could make conversion to gas uneconomic for the customers, and would thus prevent, rather than enhance, recovery of the capital costs.

NSP Gas projected that gas service would commence to customers approximately November 1, 1995, thereby establishing an expiration date of October 31, 2010, that is, after fifteen years. The Company's current forecast of project costs and revenues indicated that the surcharge could expire in ten years and nine months.

Finally, the Company stated that the accounting and reporting of this project will follow the Commission's Orders in Docket No. G-002/M-94-156 and Docket No. G-002/M-94-1054.

## **B. The Department's Comments**

The Department found the Company's proposal reasonable and consistent with past Commission decisions. The Department agreed with the Company that the model used in this filing is consistent with that used for the Lakes Area project. The Department stated it believes that NSP's characterization of Glyndon's small C&I establishments is acceptable and, therefore, that charging Glyndon's small C&I customers the same \$6.00/month surcharge as residential would be consistent with the Commission's Order in Docket No. G-002/M-94-156.

The Department recommended that the Commission accept the Company's proposed surcharge with two modifications:

1. The Glyndon expansion should be subject to the same reporting requirements as the

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<sup>1</sup> The Commission approved identical rates for additions to the Lakes Area Project (Brainerd, Pine River, and Baxter) in an Order dated October 2, 1995 in Docket No. G-002/M-94-156.

Lakes Area Expansion in Docket No. G-002/M-94-156.

2. If the New Area Surcharge for Taylors Falls, Docket No. G-002/M-95-443, has not been approved by the time the Commission issues its Order on the instant docket, the column relating to the New Area Surcharge for Taylors Falls (proposed revision to Sheet 5-21 of the tariff book) should be removed until such time (if any) as the New Area Surcharge for Taylors Falls is approved.

## **C. Commission Analysis and Action**

### **1. Background**

Between April and June 1, 1991, three Minnesota natural gas utilities filed proposed tariffs to cover the costs of expanding service to communities not yet served with natural gas. The filings were submitted by Peoples Natural Gas Company (Peoples), Northern Minnesota Utilities (NMU) and Minnegasco. All three proposals were meant to balance the needs of communities who wish to obtain natural gas service with the financial needs of utilities who cannot cover the costs of extension under existing tariffs.

On March 10, 1992, the Commission issued its ORDER REJECTING PROPOSED TARIFFS AND REQUIRING REPORT.<sup>2</sup> In that Order the Commission stated its policy of promoting the expansion of natural gas service into areas of Minnesota not currently served. The Commission noted that the expanded availability of natural gas service could bring benefits to individual customers and enhance the economic viability of their communities. The Commission also noted that most communities which can be economically served by existing gas networks under current tariffs are already being served. The Commission stated that further expansion of natural gas service is unlikely to occur unless gas utilities are allowed to recover their excess extension costs directly from customers.

Because significant policy questions regarding gas service expansion remained unresolved, the Commission decided to deny without prejudice the three petitions for service expansion tariffs. In the March 10, 1992 Order the Commission also directed Department of Public Service (Department) staff and Commission staff to examine the relevant policy issues and to issue a joint report on or before March 12, 1992. The report was duly filed on that date.

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<sup>2</sup> In the Matter of a Request by Peoples Natural Gas for Approval of a New Town Least Cost Energy Rate; In the Matter of a Request by Northern Minnesota Utilities For Approval of a New Town Rate; In the Matter of a Request by Minnegasco for Approval of a New Area Surcharge; Docket Nos. G-011/M-91-296, G-007/M-91-460, G-008/M-91-575.

Subsequently, the Commission has evaluated and approved specific NAS proposals in four Orders:<sup>3</sup>

- ▶ In an Order dated May 6, 1992 in Docket No. G-007/M-92-212, the Commission examined NMU's proposal that the NAS be a fixed monthly charge (\$6.00 for residential customers and \$14.00 for general service customers<sup>4</sup>) with a varying term of expiration.<sup>5</sup> The Commission found that a fixed monthly charge was a reasonable means of matching a fixed rate with the fixed cost of installing new equipment. In view of the novelty of the NAS issues, the Commission noted that another method could be preferable in other circumstances. The Commission stated that it would remain open to other proposals as other utilities filed their service extension tariffs. Order at page 4.
- ▶ In an Order dated November 10, 1992 in Docket No. G-010/M-92-785, the Commission, without specific discussion of rate structure as an issue, approved Midwest Gas Company's proposed surcharge of \$8.00 per month for residential *and* commercial customers involved in the service extension.
- ▶ In an Order dated May 13, 1994 in Docket No. G-002/M-94-156, the Commission considered a revised NAS proposal from NSP Gas for Lakes Area customers.<sup>6</sup> NSP Gas proposed that the surcharge for both residential customers and commercial and industrial (C&I) customers be \$6.00. The Commission found that the C&I customers in the Lakes Area more closely resembled residential customers than they resembled C&I customers in more heavily populated areas. The Commission reasoned that since class-based differences in surcharge amounts are based on class-based differences in usage, it was appropriate to apply the same surcharge to both classes where the two classes' usage was similar. Order at page 4.
- ▶ In an Order dated October 2, 1995, the Commission approved expansion of the Lakes Area NAS Project to include Baxter, Pine River, and Brainerd at the same terms and

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<sup>3</sup> In an Order dated August 30, 1995 in Docket No. G-008/M-94-1075, the Commission did not consider a specific NAS proposal, but approved the analytical and administrative framework proposed by Minnegasco for use in future requests by that company for new area surcharges. The Commission noted that it has approached NAS proposals on a case-by-case basis. Order at page 2.

<sup>4</sup> NMU's General Service Class includes customers classified by NSP Gas as commercial and industrial (C&I).

<sup>5</sup> Some commenting parties favored different methodologies for such a rate, such as a volumetric surcharge instead of a fixed surcharge.

<sup>6</sup> In the Matter of a Request From Northern States Power Gas Utility for a Miscellaneous Rate Changer to Establish a New Area Surcharge, Docket No. G-002/M-94-156 (May 13, 1994) at page 4.

conditions applicable in other parts of the Lakes Area Project, including the \$6.00 surcharge for both the residential and C&I classes.<sup>7</sup>

## **2. Analysis**

In the current docket, NSP Gas has proposed a NAS for the Community of Glyndon that would impose a uniform \$6.00 surcharge for both the residential and C&I classes.

In evaluating the reasonableness of the Company's proposed rate structure, the Commission finds relevant the factor cited by the Commission in the Lakes Area NAS Order dated May 13, 1994. In that Order, the Commission noted that class-based differences in surcharge amounts should be based on class-based differences in usage.

Applying that consideration in this case, the Commission finds that the C&I customers in Glyndon are unlike the C&I customers in other Minnesota areas served by the Company, particularly the metro area and, therefore, should not be required to pay a substantially higher NAS than residential customers. The annual usage of the Glyndon C&I customer is expected to be 250 Mcf per year compared to 725 Mcf per year for the typical C&I customer. In short, the Glyndon C&I customer's usage is closer to the typical Glyndon residential customer's usage of 120 Mcf per year. In addition, the Company's market analysis is that a large C&I surcharge would make conversion to gas uneconomic for many C&I customers, thus decreasing the take rate among this class of customers. Thus, a higher rate for Glyndon's C&I service would actually inhibit rather than enhance recovery of the capital costs. For its part, the Department also felt that the Company's proposed rate structure was appropriate, noting that its analysis showed that the classes would impose comparable costs on the system.

## **3. Action**

In these circumstances, the Commission finds that it is reasonable to approve equal NAS rates for these classes, as proposed by the Company.<sup>8</sup> The Commission clarifies that the surcharges approved in this Order are limited to a 15 year term and will end earlier if the total amount of revenue deficiency attributable to extending service to the Glyndon community is recovered. In any event, any deficiency not recovered at the end of the 15 year period is the responsibility of the Company's shareholders, not its ratepayers.

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<sup>7</sup> In the Matter of a Request From Northern States Power Gas Utility for a Miscellaneous Rate Change to Establish a New Area Surcharge, Docket No. G-002/M-94-156, ORDER APPROVING ANNUAL NAS REPORT, EXPANDING THE LAKES AREA PROJECT, AND REQUIRING REFUND ( October 2, 1995).

<sup>8</sup> The Commission notes that in an Order issued contemporaneously in Docket No. G-002/M-95-443, the Commission approves the Company's NAS proposal for Taylors Falls which imposes a \$6.00 surcharge for residential customers and a \$14.00 surcharge for C&I customers. The higher rate for Taylors Falls' C&I customers is appropriate because their average annual usage (600 Mcf per year) is much closer to the system-wide average for this class than Glyndon's C&I customers (250 Mcf per year).

## **ORDER**

1. The New Area Surcharges for each class of Glyndon customers, as proposed by NSP Gas, are approved. This project is subject to the accounting and reporting requirements specified in the Commission's Orders in Docket No. G-002/M-94-156 and Docket No. G-002/M-94-1054.
2. Within 15 days of this Order, the Company shall file a revised Tariff Sheet 5-21 including a list of all projects for which the Commission has approved new area surcharges, giving the approved or estimated ending date for each surcharge.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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